Impact of Capping on Local Service Provision

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Executive summary

The government has pledged that 'crude and universal council tax capping' will be abolished but plans to retain reserve powers to control 'excessive council tax rises' (Labour Party, 1997). Any relaxation of central controls may have important consequences for local service provision and council tax bills since, in 1997–98, over 80 per cent of councils were setting their budgets at the predetermined expenditure or 'cap' limit. Such extensive central control over local spending decisions may create a number of problems relating to the local democratic decision-making process (Emmerson and Hall, 1998a). But the relaxation of universal capping poses a number of risks for the government. The most important of these is the risk of a large one-off 'catch-up' in expenditure and council tax bills to the level that would have existed in the absence of the capping arrangements. There is considerable uncertainty over the consequences for local spending and council tax bills of relaxing capping controls.

In this Commentary, we present the results of an empirical analysis of the impact that the present universal capping arrangements have had on local budgets. This is done using a dataset that combines information on local budgets with a range of local economic, political and demographic variables over the period since April 1990. We find that the tax- and grant-financed budgets of those authorities responsible for the provision of key local services, such as education, personal social services and the police, are 4 per cent lower amongst capped councils than we would expect them to have been in the absence of capping. Shire district councils, which provide a range of more minor local services, are found to budget 8 per cent below the level that would have been set in the absence of capping.

Some services have been hit harder by capping than others. Education and social services budgets were hit harder than spending on the police, and library spending is 13 per cent lower in capped councils than it would otherwise have been. Spending restraint has been associated with deteriorations in the quality of local services. Pupil–teacher ratios have risen in capped councils and provision of home helps to the elderly population has been restricted.

We find evidence that local authorities subject to cap limits have made increasing use of alternatives to tax finance. Tax-financed subsidies to the provision of those services largely paid for through user charges, such as museums and art galleries, parks and leisure facilities, have all been reduced by more than 12 per cent.

The results suggest that capping has led to annual aggregate spending by local councils being an estimated £1.2 billion lower than it would have been. Under the current local finance arrangements, any change in local spending is met by the council tax. The research shows that, on average, council tax bills across the whole country are an estimated 13 per cent lower than they would have been in the absence of capping. This is equivalent to £90 on a band D property. The abolition of universal capping is likely to lead to considerable variation in increases in spending and hence council taxes between different local authorities. This will depend not only on the precise impact capping had on each individual council, but also on the extent to which councils decide to reverse the reductions in spending caused by capping.

Increases in local spending could be limited if the government takes measures to restrict the desired level of council spending. We find evidence that desired local spending is related to the proximity of elections and local demographic and economic influences. Adjustments to funding from central government, or other reforms such as the introduction of more frequent local elections, could serve to reduce the level of spending councils would like to achieve.

Due to political pressures, it is likely that any increases in council tax bills would be phased in over a number of years. The degree of uncertainty and political risk for the government in removing tight central controls provides an explanation for present proposals to 'retain reserve [capping] powers to control excessive council tax rises' (Labour Party, 1997).

1. Introduction

Last year's Labour Party election manifesto argued that 'local decision making should be less constrained by central government and also more accountable to local people'. In particular, the government has pledged to abolish the current system of universal capping. By 1997–98, over 80 per cent of local councils were effectively capping themselves by setting their budgets at the pre-announced expenditure limits laid down by central government. But if capping has limited local spending, any relaxation of central control might lead to significant increases in council tax bills. The aim of this Commentary is to provide empirical estimates of the impact that the capping regime has had on the provision of local services in England and Wales. This is key to assessing the consequences of any relaxation of central controls on local spending. In particular, we address the following issues:

- What determines desired local spending?
- Is spending by 'capped' local councils below their desired level of spending?
- Has capping had more of an impact on some service budgets than others?
- Has tight control of budgets been associated with sufficient efficiency improvements to prevent deteriorations in the quality of local services?

The introduction of capping powers in the UK and elsewhere has been justified on a number of grounds. In the UK context, the principal motivation for the introduction of capping was undoubtedly increasing concern over excessive local tax increases by a small number of councils that were seen as insufficiently accountable to their electorates (HMSO, 1986). Indeed, the Labour government's current plans for 'modernising local democracy' include an explicit commitment to 'retain reserve [capping] powers to control excessive council tax rises' (Labour Party, 1997). The recent local government White Paper provided details of these 'reserve powers' which will increase central government's discretion over capping decisions (Department of the Environment, Transport and the Regions, 1998c).

Limiting local expenditure has also been seen as a way of forcing local authorities to provide services more efficiently. This has been an important driving factor behind the 'taxpayer revolt' which has led to expenditure limitations being approved in voter referendums in most US states over the last three decades (Citrin, 1979; ACIR, 1995). Pressure to switch some of the cost of paying for local public services from local taxpayers to the users of these services may also be an important motivation. In some cases, such as leisure centres, a reduction in tax subsidies to public sector provision has encouraged the development of a private sphere of provision.

The presence of capping arrangements does not, of course, *necessarily* mean that local spending is now lower than it would have been in the absence of any central controls. Despite the ritual exchanges of political hostilities between local councils and central government, expenditure limits could conceivably have been set at a level that meant that they did not exercise any effective constraint on local council behaviour. Such a scenario may be increasingly plausible once a majority of councils have set their budgets at cap,

since adjustments to expenditure limits become the only real policy instrument that central government can exercise to ensure that growing demands on local services, which may be subject to explicit manifesto commitments, can be met.

Almost all of the existing evidence on the impact that capping has had on local budgets comes from the US, so it is of limited use in analysing the impact of policy reform in the UK.[1] Most of the existing studies have found that capping has led to a lower level of local spending than would otherwise be the case. Reviewing the existing evidence, the US Advisory Commission on Intergovernmental Relations found that capping typically led to a 6–8 per cent reduction in the growth of tax revenues (ACIR, 1995). Preston and Ichniowski (1991) found that property tax or expenditure limitation had a significant negative impact on property tax revenue growth and a smaller, though still significant, impact on local government revenue growth.

Despite voter enthusiasm for the proposition that capping would lead to increased local government efficiency without affecting the quality of local services (Citrin, 1979; Shapiro, Puryear and Ross, 1979), there is some evidence from the US that local services have suffered from the imposition of capping limits. Figlio (1998) found that expenditure limitation led to increased numbers of pupils per teacher in Oregon schools. Downes, Dye and McGuire (1998) found some limited evidence that tax limits in Chicago reduced students' test scores in mathematics.[2]

The structure of this Commentary is as follows. Section 2 describes how council tax capping operates. Section 3 outlines the empirical methodology used to estimate the impact of universal capping and describes what factors economic theory suggests influence local authority spending decisions, of which capping is only one. Section 4 presents our findings, whilst Section 5 concludes and draws out some implications for policy.

[1]Duncan and Smith (1995) examined the assessment of spending need in the presence of capping using data from UK shire districts in 1992–93.

[2]Other US studies include Figlio (1997), Galles, Long and Sexton (1995), Poterba and Rueben (1995), Rafuse (1979), Shannon, Bell and Fisher (1976) and Shapiro and Morgan (1978).

2. What is council tax capping?

The central aim of this Commentary is to estimate the difference between the budgets that councils would have set in the absence of central controls over their spending decisions and the budgets they actually set. This section explains how the capping process operates and how it came about. This is important since the institutional background needs to be considered in any analysis of the impact of capping. Other factors relating to the structure, responsibilities, and financial and democratic constraints within which local councillors make their decisions are also likely to be important, particularly if this institutional environment changes over time. A brief overview of these other institutional factors in England and Wales is provided in Appendix B.[3]

Before the introduction of capping powers, central government could influence local spending decisions through the use of persuasion or threats or by withdrawing grant from high-spending authorities. Travers (1986) provides a fascinating account of the Thatcher government's attempts to restrain local spending via a combination of these methods during the early 1980s. The 1984 Rates Act conferred on central government the power to limit or 'cap' the expenditure of local councils (HMSO, 1984). This power could be exercised by determining capping criteria that had to be consistently applied across a given class of authorities, such as London boroughs or shire counties, but did not need to be announced in advance.

Although capping was first used in 1985–86, it operated quite differently from the present system. Between 1985–86 and 1989–90, the budget that a council could set in any year was capped if central government deemed that the council had set an 'excessive' budget the previous year. Only between eight and 21 councils were capped each year, which represents less than 5 per cent of the total number of councils. An analysis of the impact of this form of selective capping on local budgets is presented in Emmerson, Hall and Ridge (1998).

In April 1990, no authorities were originally selected for capping, since substantial reforms to the local finance system were introduced in an effort to increase the accountability of local authorities to their electorates.[4] However, in reaction to a large increase in local taxes, central government used its reserve powers to retrospectively cap the budgets of 21 councils. These councils were forced to make budget reductions and rebill local residents, even though the 1990–91 financial year had already started. The disruption associated with the retrospective capping of council budgets in April 1990 led to pressure on the government to announce the criteria it would be using to select councils for capping in advance of councils setting their budgets. In November 1990, the government announced its provisional capping criteria for the following financial year, effectively providing each council with a provisional spending limit. The criteria

[3]We omit description of the local government systems in Scotland and Northern Ireland from this review since it was not possible to construct a dataset that included the full set of relevant information on councils measured on a consistent basis in these countries for the empirical work.

[4]Amongst other reforms, non-domestic rates were effectively nationalised, and both a grant system based on 'point equalisation' and the community charge were introduced.

depended on a number of factors and varied between different councils. Usually they allowed a council a certain percentage increase in spending depending on its level of spending relative to central government's assessment of its spending requirements. The rules used in each year to calculate provisional cap limits are given in Appendix E.

Whilst announcing the capping criteria before local councils set their budgets has reduced the uncertainty faced by individual councils, it has also led to a number of councils effectively 'capping themselves' by setting their budgets at the centrally determined cap, heralding the era of universal capping. Table 2.1 shows the proportion of councils that have budgeted below, at and above their limits in each year since provisional capping limits were first set for all local authorities in 1991–92.[5] Since then, a half or more of councils have effectively 'capped themselves' each year, compared with less than 5 per cent designated for capping between 1985–86 and 1990–91. By 1997–98, over 80 per cent of local authorities in England and Wales set budgets that were at or within 0.1 per cent of the provisional capping limit laid down by central government the previous November (CIPFA, *Finance and General Statistics*, 1997–98). Although local authorities remain free to set budgets that exceed the provisional capping limit announced by central government the previous November, very few have done so in recent years, and even fewer have had their cap limits raised in response. A majority of those that have set their budgets above this level have been forced to rebill constituents and make budget cuts in the current year.

Given the apparent importance of capping to the local finance system, the implications for council tax bills of the present proposals to remove universal capping can be assessed through an analysis of the size of any 'gap' that has opened up between actual local spending and the level of spending that councils would have preferred to choose in the absence of central controls. The next section looks at the methodology employed and at factors that are likely to be important influences on a local council's desired level of spending.

Table 2.1. Percentage of councils setting budgets below/at/above provisional cap limits

	Percentage of councils budgeting below provisional cap	Percentage of councils budgeting at provisional cap	Percentage of councils budgeting above provisional cap
1991–92	78.0	19.0	3.0
1992–93	44.9	52.9	2.2
1993–94	29.6	69.5	0.9
1994–95	49.9	49.5	0.6
1995–96	30.2	67.7	2.0
1996–97	22.7	76.0	1.3
1997–98	17.5	81.8	0.6

Note: 'At cap' is defined by a council setting its budget within 0.1 per cent of its cap limit.

Sources: CIPFA, *Finance and General Statistics*, 1991–92 to 1997–98; House of Commons Library Research Paper, 1997; authors' calculations.

[5]Spending by small parish councils and the Metropolitan Police has always been exempt from expenditure limitation. In addition, prior to 1992–93, councils were exempted from the capping system if they budgeted below an absolute amount. This absolute limit was £15 million in 1991–92. In practice, this is the same as giving councils with small budgets an expenditure limit of £15 million.

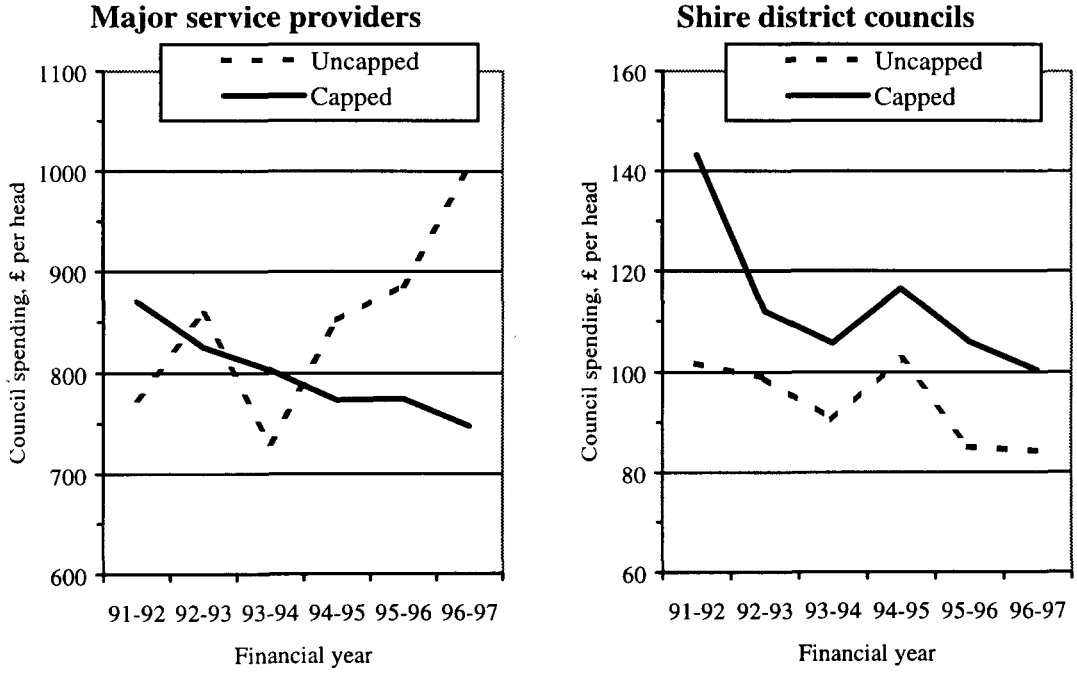
3. Assessing the impact of capping on local spending

To assess the impact of the capping arrangements on local spending, we need to estimate the difference between desired and actual spending of those councils that have set their budgets at cap in recent years. This section outlines the methodology chosen, and then looks at the factors economic theory suggests to be important influences on council spending decisions.

3.1 Empirical methodology

The simplest method of estimating the impact of capping on local service provision would be to compare the average levels of spending and service quality of the group of councils that had their budgets capped in any given year with those of the group that did not. Figure 3.1 plots average council spending per head from 1991–92 to 1996–97, for councils that did and councils that did not set their budget at the cap limit. For councils providing major services, the graph shows capped councils gradually spending less in real terms over time, with uncapped councils by the end of the period spending substantially more. However, this is largely because a number of high-need Inner London authorities that spent at cap during the early years of universal capping began to set budgets below the cap towards the end of this period. This reduced the average spending of capped councils and increased the average spending of 'uncapped councils'. This switch was associated with revisions to the grant formula which penalised Inner London councils. For shire district councils, capped councils have, on average, consistently spent more than uncapped councils.

Figure 3.1. Average council spending per head, by whether or not council budgeted at cap



Notes: 'Major service providers' include London borough councils, metropolitan district councils and shire county councils. Figures in January 1996 prices.

Source: See Appendix C.

A more sensible approach would be to compare the *changes* in spending per head between the group of councils that had their budgets capped and those that did not. This approach allows for spending responsibilities and needs to vary between councils as long as this variation does not change very much over time. But this approach fails to take into account any changes occurring within local areas that may have an impact on local spending decisions, such as the political complexion of the council. Even if this approach showed that capped councils had lower increases in spending, this would not necessarily have been caused by capping. It could be that the group of councils that set their budgets at the centrally determined cap would have budgeted for lower increases in spending than unrestrained councils *even in the absence of the capping arrangements.*

In earlier work on the impact of the selective capping system that existed during the 1980s (Emmerson, Hall and Ridge, 1998), it was possible to compare the behaviour of councils that were subject to capping provisions with that of councils whose budgets were not subject to expenditure limitations in any given year. Under universal capping, cap limits have been set for all councils, so we do not have a comparison group of authorities that have operated outside the capping system. This raises some additional issues for estimation. One option is simply to estimate the relationship that exists between council spending and the various characteristics of the local area in those areas where the council is not setting its budget at the capping limit. The estimated relationships could then be used to predict the budgets that capped councils would have set in the absence of the capping system and the impact of capping would be the difference between these predictions and the budgets that the councils actually set. But this approach fails to take account of all the information that we have on those councils that did set their budgets at the centrally determined cap.

We therefore use a technique known as censored regression, which uses information we have on all councils but takes into account that some of these councils faced an external constraint. In this model, we assume that councils that have set budgets below cap have chosen their desired level of expenditure, as described in Box 3.1. We also assume that

Box 3.1. A model of local spending decisions

Council i's desired expenditure, E_i^*, will be determined by its spending needs, income, and spending preferences:

$$E_i^* = f(\text{needs, income, preferences}).$$

If a council budgets below its predetermined capping limit, then its desired spending will be equal to its actual spending:

$$E_i^* = E_i < Cap_i .$$

If a council budgets at its predetermined capping limit, then its desired spending is greater than or equal to its actual spending (which is its capping limit):

$$E_i^* \geq E_i = Cap_i .$$

those councils that have budgeted at cap have a desired level of expenditure that is at least as great as the expenditure limit. We can then assess the impact of capping on local spending by comparing what capped councils actually spent with what our model predicts they would have spent if unconstrained, having tested whether the difference is statistically significant.

Both of these assumptions may be questioned. First, councils may have chosen to spend up to cap to maximise their future budgetary room for manœuvre, since future expenditure limits are influenced by current expenditure decisions, although this influence on the results is likely to be small. Second, councils that budgeted below the cap limit may also have reduced spending as a result of the capping arrangements. In this case, our results would be expected to underestimate the effect of capping slightly. Further details of the empirical techniques used in the analysis are given in Appendix D.

This methodology, once used to estimate a model of desired local spending, will provide estimates of the impact of capping on local spending. In addition, by applying the same methodology to desired levels of spending on individual services and also desired levels of service quality, it will be possible to establish which services have been hit hardest by the capping arrangements. Before this methodology can be employed, however, it is necessary to establish what factors economic theory suggests to be important influences on local spending, both in aggregate and on individual services.

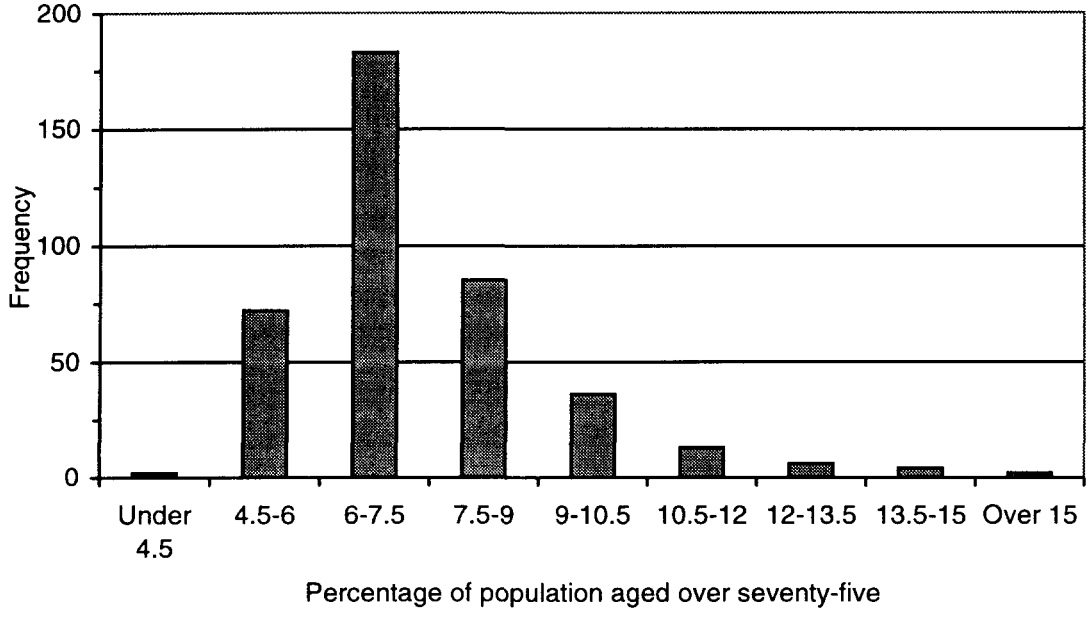
3.2 What drives desired spending by local councils?

Local councillors, like all economic agents, can be expected to pursue their own objectives subject to the constraints within which they operate. Councils face two particularly important constraints on their actions — first, the institutional framework set up by central government and, second, the fact that councils that pursue policies that do not attract public support in their local area may be in danger of losing office at the next election. Through the local electoral process, voters living in each local community collectively influence the proportion of the available resources in their local area to be allocated to local public services and the proportion to be spent on personal consumption. Desired local authority expenditure can be expected to reflect the needs, resources and preferences of local people. The factors that might influence these aspects of desired local spending are described in more detail below.

Needs

Demographics. Many services are specifically targeted at particular age-groups. For example, responsibilities such as primary and secondary education and personal social services mean that a large proportion of spending is targeted at the young and the very old. The demands on local spending programmes will therefore vary according to the relative importance of these two demographic groups in the local population. The demographic composition of the population varies considerably between local areas. Figure 3.2 shows the distribution of the proportion of residents aged over 75 between local authorities in 1995–96.

Figure 3.2. Percentage of residents aged over 75, by English and Welsh lower-tier authority, 1995–96



Source: See Appendix C.

Figure 3.3. Distribution of unemployment rates, by English and Welsh lower-tier authority, 1995–96

Note: The proportion unemployed has been calculated as the number of unemployed divided by the population aged between 20 and 59.

Source: See Appendix C.

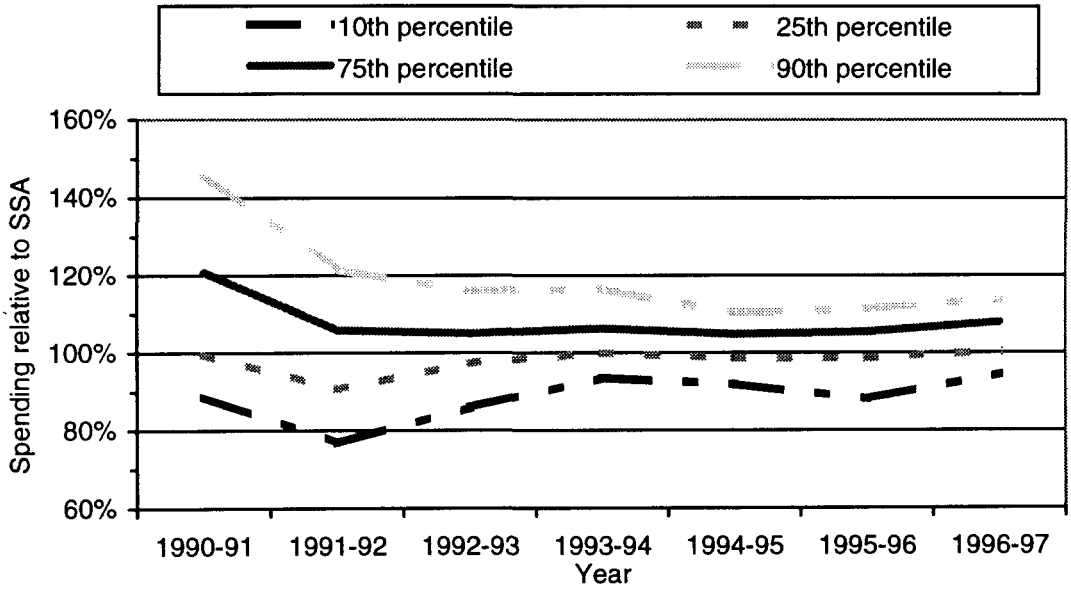
Local economic circumstances. The extent of socio-economic deprivation may influence both the number of potential clients for social services departments and the cost per unit of provision. The cost of refuse collection or processing planning applications will vary with the size of the local business community. Provision of subsidised leisure services may be targeted at young people in deprived areas or at the unemployed. The variation in unemployment rates between areas in 1995–96 is shown in Figure 3.3.

Resources

Local incomes. Just as richer individuals tend to purchase different types and quantities of private goods such as cars, foreign holidays or food than poorer individuals, they are likely to prefer different levels or types of local public spending. Emmerson, Hall and Brook (1998) present evidence that higher levels of household income are associated with more favourable attitudes towards local schools provision and more hostility towards additional expenditure on social housing, for example.

Grant from central government. The amount of cash that central government pays to a local council will also influence the quality of local services it provides. An increase in the combined income of the public and private sectors in a local area may result in a different balance of public and private spending depending on whether it arises from an increase in the prosperity of local people or from increased central grant to the local council. This phenomenon — that money tends to get spent by the person or organisation that receives it — is known as a 'fly-paper effect' (see, for example, Gramlich (1977) and Fisher (1982)). Central government distributes grant to local authorities using standard spending assessments (SSAs), which are a measure of an authority's 'need'. SSAs are also used in the calculation of an authority's cap limit. Figure

Figure 3.4. Spending relative to standard spending assessment



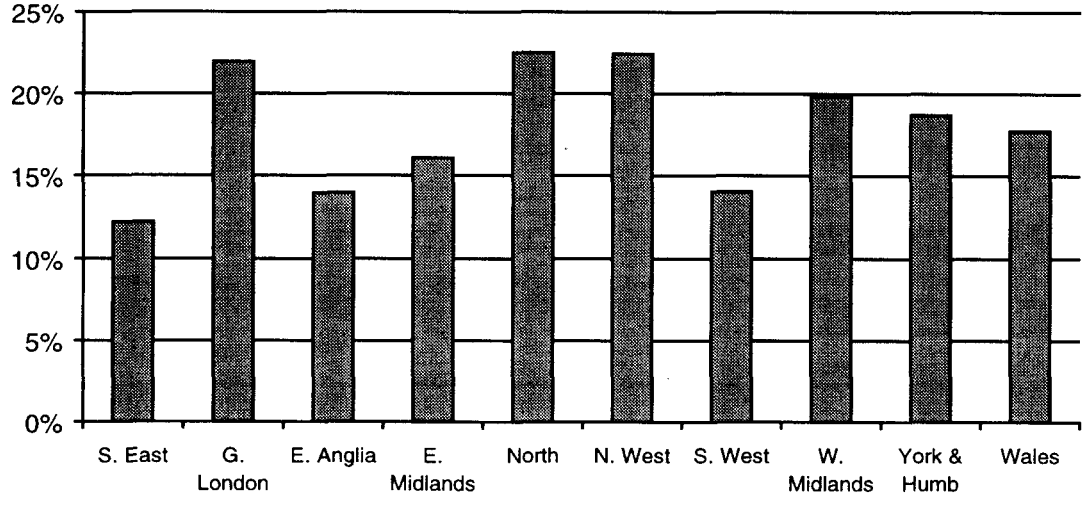
Source: See Appendix C.

3.4 shows how SSAs appear to be an important determinant of council spending decisions. Council spending is now more closely related to SSA than in 1990–91, which could be a result of the increase in the number of capped councils or simply of changes in SSA and council spending decisions over time.

Costs of local services. When the prices of private goods such as chocolate bars or restaurant meals increase, individuals demand less. Similarly, local residents may be less willing to vote for higher local spending if there is a greater impact on their own local tax bill. Conversely, more widespread support for higher local spending could exist in areas where a large proportion of local residents are entitled to rebates on their local tax bills. If this is the case, and the proportion of council spending financed through council tax benefit varied between capped and uncapped councils, then any analysis that failed to take this into account would provide inaccurate estimates of the impact of capping. Figure 3.5 shows that considerable variation in the proportion of council tax bills paid by council tax benefit exists between the regions of England and Wales. Even greater variation exists between individual local councils.

The costs of providing different services will vary between local areas because the costs of service inputs such as wages or property rents are higher in some areas than in others. In addition, the costs of provision of certain services may be prohibitive in areas with sparse populations. Alternatively, if certain demographic groups, such as nursery-age children, are concentrated in certain areas, then the costs per resident of providing services to all members of that group will be correspondingly increased. Whether higher costs lead to higher spending depends on how price-elastic the demand for local services is. If it is elastic, in the sense that higher costs lead to a greater-than-proportionate reduction in the quantity of the service demanded, we might actually observe lower levels of spending in higher-cost areas.

Figure 3.5. Percentage of gross council tax bills accounted for by council tax benefit, by region, 1997–98



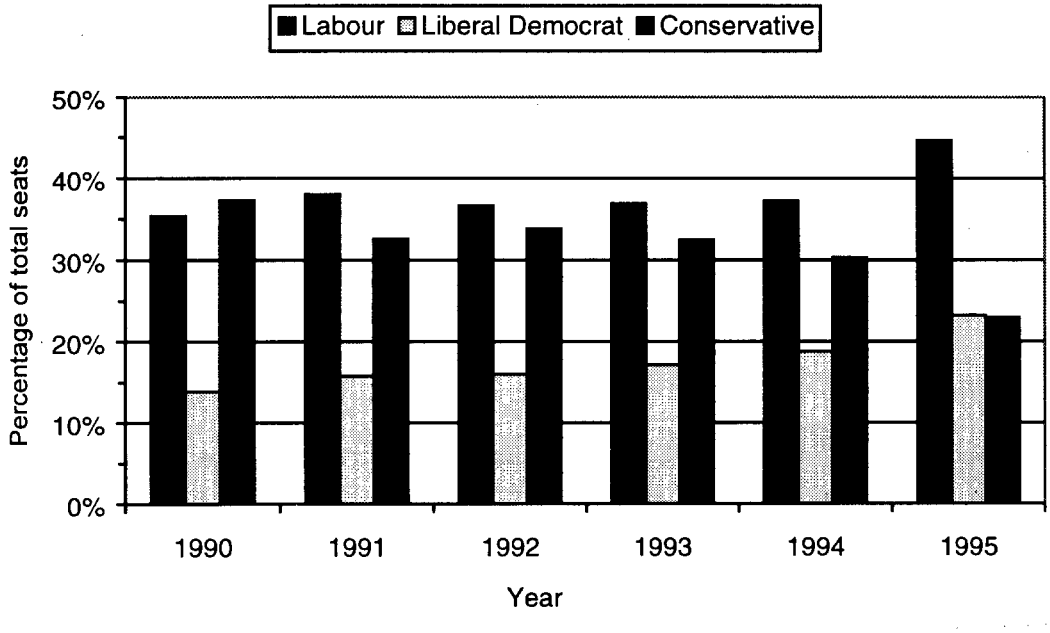
Source: CIPFA, *Finance and General Statistics*, 1997–98.

Preferences

Local political and electoral considerations. The collective views of local communities may vary considerably across the country. Much of this difference is likely to reflect differences in the characteristics of the residents of each local area. A greater concentration of elderly individuals in a particular area, for example, could allow the so-called 'grey vote' to influence local political priorities in favour of providing more services of direct benefit to elderly individuals.

Any divergences in local views will be reflected through the local political process. Local political parties compete to provide packages of local services and tax bills that are most acceptable to local voters. Councils may be deterred from pursuing policies that do not attract considerable local support due to the risk of losing office at the next election. Councils with large majorities are able to pursue different policies from those with slim majorities, either because the size of their majority reflects stronger local support for their proposals or simply because councils with large majorities will not feel as vulnerable to electoral pressures. Figure 3.6 shows the proportion of seats on local councils controlled by the Conservative, Labour and Liberal Democrat parties between 1990 and 1995.[6]

Figure 3.6. Percentage of total council seats held by each of the main parties, England and Wales



Source: See Appendix C.

[6]Elections are held in May, whilst councils set their budgets in the following April. For our empirical work, we use the political composition of the council at the time the budget was set — for example, the April 1996 budgets were set by the councillors elected in May 1995. This alleviates any fears that a council's budget could influence voting behaviour.

Desired expenditure on individual services

Many of the same need, income and preference characteristics of local areas are also likely to explain variations in desired council spending on individual services between areas. But the importance of each area characteristic for spending may vary considerably between services. The proportion of the population between the ages of five and 16 can be expected to have a far greater impact on the education budget than on the police budget. Other characteristics of local areas that are relatively unimportant in explaining overall council expenditure may have a disproportionate impact on spending on a range of minor services. The presence of high-fire-risk commercial properties may have little impact on overall spending but is likely to be important in determining the fire service budget.

3.3 What determines actual local spending in capped councils?

Each of the factors described above is likely to be important in explaining variations in the desired level of local expenditure both between councils and over time. But the actual expenditure choices that councils have made over recent years may not correspond to those they would like to have made had it not been for the capping system. The size of the gap between unconstrained expenditure preferences and the capping limits will therefore determine the impact of capping on local budgets in any given year. It is the size of this 'spending wedge' that is important for policy purposes.

The difference between the budgets that capped councils actually set and the budgets they would have liked to set may vary considerably according to both variations in the desired level of spending between councils and how restrictive the capping criteria were for any particular class of local authority. Capping limits take the form of a maximum allowable year-on-year increase in budgets for each council according to generalised rules that vary in their severity by class of authority or by the extent to which a local council budgets in excess of its SSA. In 1995–96, for example, councils that set budgets between 5 and 10 per cent above their SSA were allowed a maximum increase in spending of 1.5 per cent if they were a police authority, 1.25 per cent if they were an Inner London borough or a fire authority, and 0.5 per cent if they were any other type of council.

It is not obvious that the burden of any expenditure restraint that results from being capped will be shared equally between local services. Indeed, there are at least three reasons to suppose that this might not be the case, and we consider these in turn.

Budget shares

As local areas become more or less prosperous, the priorities of local residents may change. If a limit on local council spending has a similar impact to a limit on the resources available to the local area as a whole, one might expect that the services that would be hardest hit by capping would be those seen as peripheral or 'luxuries', with the budgets for 'essential services' largely protected. Unfortunately, there is very little empirical evidence on the effect of changing incomes on the demand for local services. Noam (1979) considered the impact of local spending cuts on the composition of council budgets, using referendum data from jurisdictions within the Swiss canton of

Basle. He estimated the income elasticity of five types of spending to increases in spending, finding that demand increases with income for all services and that demand increases more than proportionately with increases in local incomes for spending on education and social programmes. Closer to home, Preston and Ridge (1993) found a positive though inelastic relationship between household income and demand for local public spending within the UK.

Substitution between public and private provision

If capping leads to councils setting lower budgets than they otherwise would have done, it follows that council tax bills have been lower than otherwise, so personal disposable incomes in the local area are correspondingly higher. Since the possibility of substituting between public and private consumption exists, we might expect to observe larger budget cuts for those services where user charges or the private sector provide close substitutes to tax-financed public provision than for other local services. For the key elements of most local services, such as education, policing or fire services, levying direct charges on service users is prohibited by legislation. But for some local services, increased charges on service users may be used to compensate for reductions in tax-financed expenditure. Charging can be explicit, as in the case of charges for council-owned swimming pools or car parks. Alternatively, charging can be implicit, as when a larger share of the burden of purchasing school books is passed to parents. Since the incidence of local taxes and charges on service users may differ, the socio-economic conditions prevailing in each local area may be an important influence on the capacity of individual councils to raise revenues from charges. Charging policies may also be heavily influenced by the extent to which charges can be levied on service users, such as tourists or commuters, who do not reside in the local area.

Potential for efficiency improvements

Councils may attempt to make those cuts in spending that have the smallest impact on service quality. It is possible that restricting council spending does not lead to a reduction in service quality if the placing of external constraints on councils forces them to provide local services more efficiently. Of course, the scope for making spending cuts that do not affect service quality will depend on how efficiently the council was operating before it was capped. In addition to looking at the impact of capping both on total spending and on individual local services, we will use our model to see whether capping has led to a deterioration in the quality of local services. This will be assessed by looking at the impact of capping on a range of potential indicators of service quality.

Our model of local spending decisions serves two purposes. First, it provides evidence on the size and importance of the impact that particular characteristics of local areas have on desired council spending. Second, by using censored regression techniques, we can derive an estimate of the size of the gap between actual and desired spending of those councils that have budgeted at cap in recent years. The results of this analysis are presented in Section 4.

4. Results

In this section, we present the findings from our empirical research. Section 4.1 presents the results of the analysis of which factors have an influence on desired local spending for both the shire districts and the 'major' councils (i.e. those providing major services) taken separately. Section 4.2 then uses the estimates of desired spending to calculate the extent to which the capping arrangements in use over the last few years have led to a deviation between actual and desired expenditure for those councils that have set their budgets at the centrally determined cap.

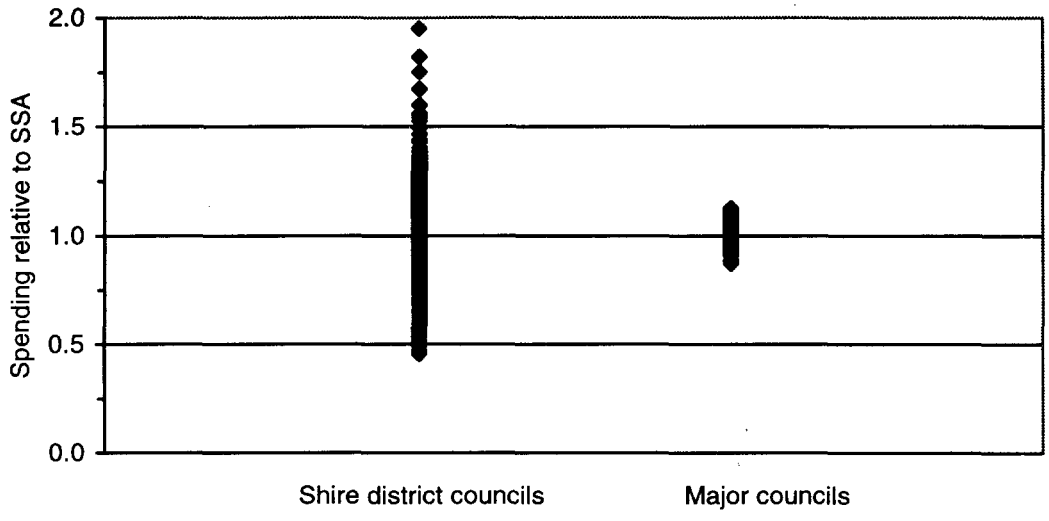
We model desired expenditure of local councils using detailed information on the budgetary decisions of over 450 individual local councils in England and Wales over the period 1990–96. This has been combined with information on the demographic, economic, political and electoral characteristics of each local area in each year. Further descriptive details of the variables used in our analysis are presented in Table C.1 in Appendix C.

A dataset with information for the same group of councils over a number of years has the added advantage of allowing the impact of two further sets of influences on local budgets to be taken into account. First, national economic or political influences such as the economic cycle, which affect all councils in a similar way in particular years, can be taken into account using time effects. Second, even allowing for the characteristics of local areas that we can observe, council spending decisions may be correlated over time. This would be so if there are some characteristics of local areas on which we do not have detailed information but that do not vary over time and hence have a similar impact on spending decisions each year. These might include such factors as existing infrastructure, socio-economic conditions and industrial structure. Alternatively, the local budget-setting process may be incremental in nature if, for example, committee chairs take the previous year's budget for each service as the starting-point for their budgetary negotiations, or organisational or other costs lead to desired expenditure adjusting gradually over time. Since we have multiple observations on each local council, we can take past levels of spending into account in modelling local spending decisions.[7]

We have estimated separate models for shire districts and for other councils, labelled 'major' councils. These include London borough councils, metropolitan district councils and shire county councils. Shire district councils provide a much smaller range of services which typically have much lower budgets than the services provided by other councils. As a result, the importance of demographic or political considerations for spending decisions may vary considerably between different types of council. For example, Figure 4.1 shows that spending by major councils appears to be more closely related to SSAs than is spending by shire districts. SSAs for major councils are set separately for each major service (education, social services, police, fire and transport), whereas all of the spending needs of shire districts (other than capital finance) are

[7]A similar approach is used, amongst others, by Ladd (1978) to investigate the impact of expenditure limitations in the US. In addition, a study of spending in Swedish municipalities by Dahlberg and Johansson (1997) found evidence that spending in the previous period was an important determinant of current spending, whilst spending from earlier periods and also previous levels of income from local taxes and central government grant were not.

Figure 4.1. Council spending relative to SSA, 1991–92 to 1996–97



Source: See Appendix C.

lumped together in the 'other services' block which uses a variety of indicators which may have little bearing on demand for many of the individual services provided by those councils.

In addition to estimating the impact of capping on individual services, we have tried to find evidence as to whether capping has influenced the quality of local service provision. For much of the 1990s, a relatively limited range of indicators of council performance are recorded on a consistent basis from year to year. Using these performance indicators as a measure of service quality is far from uncontroversial. For some indicators, such as the speed with which planning applications are dealt with, delays might reflect either inefficiency or a more rigorous assessment of applications. In other cases, such as primary or secondary pupil–teacher ratios, it is not clear whether the measure reflects service quality or simply labour inputs. But, whilst those areas with smaller class sizes may not necessarily be providing the best quality of education, a more convincing case can be made for the argument that reducing class sizes in any given area represents an increase in service quality.

4.1 What drives desired local spending?

In order to determine the impact of capping on local budgets, we had to estimate a model of how much local authorities would have chosen to spend in the absence of the capping arrangements. This is calculated using a censored regression technique, taking information on all the available characteristics of both uncapped and capped councils to estimate their desired level of spending. This is then compared with their actual spending behaviour. Tables A.1 and A.2 in Appendix A report the results of our multivariate analysis of the impact of various local characteristics on the variation in spending between councils.

The results of this model of desired council spending are of considerable interest. In this section, we report on what factors are associated with variations in desired expenditure

between local areas, both in terms of overall council budgets and in determining priorities between individual service budgets.

Previous spending. This has a large impact on the results since spending last year turns out to be a very good indicator of what a council will spend this year. There are two key effects that may explain the importance of the previous year's spending. First, any unobserved influences on spending in a given local area that do not vary much over time will influence the previous year's expenditure as well as this year's expenditure. Including last year's spending in our model should avoid possible biases in our estimation of the impact of related local characteristics. Second, if councils take an incremental approach to expenditure, so that the previous year's budget is taken as the basis for each year's budget negotiations, with adjustments being phased in over time, then taking account of previous spending decisions is likely to be important.

Influence of SSAs. Standard spending assessments are found to be strongly related to local spending decisions. This is likely to occur for two reasons. First, SSAs are likely to reflect a large proportion of the variation in demands placed on local services between council areas. In particular, SSAs attempt to identify the number of clients and the cost per client of providing some of the most important services, such as education and personal social services. Second, SSAs are used as the basis for determining the distribution of grant to individual local authorities, which represents an important source of income for local spending. Unfortunately, SSAs and grant are so closely related that it has not proved possible to separate out the income effect on local spending from the 'spending need' effect.

SSAs were found to be a more important determinant of spending by major councils than of spending by shire districts, which is not surprising since spending relative to SSA is much more dispersed for shire districts than for major councils. This also explains why previous spending was found to be a more important determinant for desired spending of shire district councils than it was for major councils.

Political influences. Political considerations appear to have a strong influence on local spending decisions. Spending was inversely related to the share of the seats on a council held by Conservative councillors and was higher in areas where a larger share of seats were held by the Labour Party. In each case, the comparison group is those seats held by other parties. Even taking the share of the seats on the council held by the Conservatives into account, we detect an additional downward impact on overall spending in those cases where the Conservatives had an absolute majority of seats on the council and therefore were in sole political control.

This pattern of political influence is also seen once we look at variations in spending on individual services between councils, although we do not show detailed results.[8] Councils with a higher proportion of Conservative councillors than Labour councillors tended to have lower levels of desired spending on education, social services, libraries and museum and leisure services whilst being no different in terms of their spending on either the police or the fire service. These results are similar to those of Barnett, Levaggi and Smith

[8] A full set of results is available on request to the authors.

(1990), who found that political influences were important determinants of local government spending in 1985–86.

Electoral influences. There is some evidence that councils providing major services attempt to hold down tax-financed spending in years in which local elections occur. This is important, given the government's proposals to have more frequent elections (Department of the Environment, Transport and the Regions, 1998b and 1998c).

Economic influences. Areas with higher rates of unemployment were found to have lower levels of local spending both by major councils and by shire district councils. This perhaps reflects that, once differences in 'need', as measured by SSA, are taken into account, those councils with higher levels of unemployment are less able to increase spending through the council tax. In addition, both the proportion of elderly people living alone and the proportion of children whose parents were claiming benefit were found to be positively related to spending by major councils. Average incomes were not found to have a significant effect on spending by either major councils or shire districts. This is probably because only data on workplace-based incomes were available and these are likely to be an imperfect measure of actual income within a local area.

Demographic influences. A disproportionate amount of council spending, especially that by major councils, is on the young and the old, mainly in the form of education and spending on social services. We do not find evidence that an increase in the population aged five to 14 leads to an increase in overall spending by major councils once we take into account spending in the previous year, perhaps indicating that spending on, for example, education adjusts gradually to changes in demographics. We do find, however, that an increase in the proportion of residents aged over 80 leads to higher spending by major councils. Since the number of elderly residents is already included in the SSA formula for social services, it does suggest that the demands of this demographic group are not being fully taken into account by the grant formula. We also find some evidence of demographic influences on spending by shire districts. Increases in the proportion aged between five and 14 and in the proportion over 80 are both found to lead to higher spending by shire district councils.

Costs of providing services. The proportion of gross council tax revenue that is paid for through council tax benefit in each area is found to be positively related to local expenditure by shire district councils but not by major councils. This may appear surprising, as one might expect individuals in receipt of benefit to vote for higher spending since they would not have to pay the higher taxes required to finance that spending. But we might expect this effect to be much weaker if, as is sometimes alleged, those on benefit are either less likely to be politically active or less likely to vote in local elections. In addition, areas with a high proportion of gross revenues covered by council tax benefit are likely to have more individuals on low incomes but not eligible for benefit. For these individuals, any increase in local spending would be likely to have a large impact on their personal finances and hence they may be less willing to support increases in local spending.

4.2 The impact of universal capping on local service provision

Tax- and grant-financed spending

On average,[9] our results suggest that those major councils that set their budgets at the centrally determined cap in recent years have set budgets 4.2 per cent or £33 per capita lower than they otherwise would have done. For shire districts, which have faced tighter capping limits in recent years, capping has led to budgets 8.3 per cent or £9.30 per head lower than otherwise. These results are shown in Table 4.1, which also contains a range within which these estimated cuts lie (the 95 per cent confidence interval). Overall, taking into account the number of councils that have been capped each year, this would suggest that the capping system has led to annual aggregate local authority expenditure being around £1.2 billion lower than it otherwise would have been. This implies that, on average, council tax bills across the whole country are an estimated 13 per cent lower than they would have been in the absence of capping. This is equivalent to £90 on a band D property, although this would clearly vary considerably across the country depending on the precise impact of capping on individual local areas.

Spending including the use of reserves

The above reduction in council expenditure is found using the spending definition that is subject to the capping criteria — namely, expenditure financed through central government grant and the local council tax. Council spending from reserves is not subject to the capping legislation and, on average, councils — both capped and uncapped — have been financing some spending by a reduction in the level of their reserves (Dilnot and Giles, 1996). We find that, whilst those councils that budget at cap do tend to reduce their reserves, they do so by less than unconstrained councils. Capping is found to reduce spending including that financed from reserves by 6.7 per cent in major councils and by 16.4 per cent in shire districts, which is more than the reduction in tax- and grant-financed spending. This is different from the result found by Emmerson, Hall and Ridge (1998) for the system of selective capping in the 1980s — that councils designated for capping spent more from reserves and hence reduced the impact of

Table 4.1. The impact of capping on overall local council spending

	Major councils	Shire districts
Tax- and grant-financed spending		
Median % reduction	4.2%	8.3%
Median £ cut	£33.03	£9.30
95 per cent confidence interval £ cut	£27.47–£37.67	£8.29–£10.39
Spending including the use of reserves		
Median % reduction	6.7%	16.4%
Median £ cut	£55.28	£20.78
95 per cent confidence interval £ cut	£43.80–£69.23	£18.31–£23.55

[9]The average used is the median. This is the difference between actual and desired spending caused by capping for the council for which the number of councils more adversely affected than it by capping is the same as the number less adversely affected. The median difference caused by capping is preferred to the mean difference since the median is more robust in the presence of outlying observations.

capping on services. There are several explanations for constrained councils no longer being able to maintain service standards partially by reducing their reserves. For example, capped councils may have experienced greater pressures on their reserves in recent years, perhaps through being capped in successive years or by experiencing a greater increase in tax non-compliance around the time of the poll tax.

Individual service budgets

The measures of spending on individual services include financing from local council taxes and grants and also the use of reserves. Individual service budgets are not capped directly. This means that, in practice, a capped council could still spend as much as it liked on its priority service if it were prepared to let other services shoulder the burden of the imposed cuts. Due to this degree of discretion, we expect our estimation technique to produce slightly larger cuts for the total of individual service budgets than for aggregate local spending. Despite this, the sum of the reductions found across the disaggregated spending areas by both major councils and shire districts is found to lie within the range of potential cuts to total spending found for that class of council.

Below, we present the results of our analysis of the effect of capping on various individual local services. These include the main spending areas of education, social services, police, fire and transport, for which we also have some potential indicators of service quality. We then report the effect of capping on a range of more minor local services, such as libraries. For each, we provide our estimates of the size of the gap between actual and desired expenditure for those councils that have budgeted at cap in recent years. More detailed results are contained in Tables A.3 and A.4 in Appendix A, whilst Table C.2 in Appendix C provides details of the factors considered in modelling each area of local spending.[10]

Education. Over the last few years, a great deal of publicity has been given to increasing class sizes and the failure of the government to increase the share of national resources that is spent on education (Dilnot and Giles, 1998). The capping arrangements may bear some of the blame for this expenditure restraint within education. As might be expected, major councils have been unable to spare education, which is by far the most important local service in budgetary terms, from the burden of any expenditure restraint associated with budgeting at cap. Capping appears to be associated with a reduction in overall expenditure on education of some 9.1 per cent, as shown in Table 4.2.

Primary education appears to have been spared some of the spending restraint that has occurred within the education sector as a whole. Capping is associated with an 8.3 per cent lower level of gross spending per pupil within the primary sector but only 6.7 per cent less on teaching costs per pupil. This suggests that education departments have tried to cushion the impact of capping on staffing levels and the quality of teaching staff by trying to achieve larger cost savings in other areas of the education budget, which include central support services and provision of secretarial and support staff within schools. Indeed, we find that capping is associated with an increase of one pupil per teacher

[10]A complete set of regression results for each local service is available from the authors on request.

Table 4.2. The impact of capping on education spending

	Reduction due to capping		
	%	£	(units)
Education spending	9.1%	£37	(per head of population)
Primary			
Gross costs	8.3%	£155	(per pupil)
Teaching costs	6.7%	£85	(per pupil)
Pupil–teacher ratio[a]	+5.0%	+1.08	(pupils per teacher)
Secondary			
Gross costs	9.4%	£261	(per pupil)
Teaching costs	8.2%	£155	(per pupil)
Pupil–teacher ratio[a]	+6.5%	+1.05	(pupils per teacher)
Nursery			
Nursery places (% receiving)	7.3 percentage point drop		

[a]For pupil–teacher ratios at the primary and secondary levels, the positive signs denote that capping has led to an increase in the ratio.

employed in primary schools. This represents an increase of about 5 per cent. The disparity between the impact of capping on pupil–teacher ratios and on teaching costs suggests some degree of substitution for 'cheaper' teachers in capped authorities, perhaps by employing younger teachers in the classroom.

The impact of capping appears to have been harsher in the secondary sector, where capped councils are estimated to spend 9.4 per cent less than they otherwise would have done. Again, there is some evidence that the impact of capping has been greater on non-teaching costs, since teaching costs per pupil have fallen by only slightly more than half the fall in gross costs. As with the primary level, we find that capping is associated with an increase in secondary pupil–teacher ratios of roughly one pupil, suggesting some degree of substitution towards the employment of less expensive teachers in capped authorities.

Capping appears to have had a stronger impact on the provision of free nursery places by local councils to those aged between three and five. Capped councils are found to provide free nursery places to 7 percentage points fewer of the relevant age-group in their local area, which means coverage is around a fifth less than it otherwise would have been. The disproportionate impact on nursery provision may be due to the lack of statutory protection for provision of this service during the period, especially compared with spending on the school-age population.

Personal social services. Social services spending has also been hit by the capping arrangements, as shown in Table 4.3. Capped councils are found to have spent around 9 per cent less than they otherwise would have done. This also appears to have followed through to an impact on the quality of services that are offered to local residents. One area that may have been a relatively 'soft target' for social services departments faced with expenditure restraint is the number of hours per year that home helps spend with vulnerable (typically elderly) individuals who continue to live in their own homes, which appears to be 16 per cent lower than otherwise. This may manifest itself in a reduction in hours per week for those who receive help, tighter eligibility criteria or lower coverage for holidays and sickness.

Table 4.3. The impact of capping on the provision of personal social services

	Reduction due to capping	
	%	£ per head
Social services spending	9.4%	£13.19
Home help contact hours	16.3%	n/a

Police, fire and transport services. Compared with education and social services spending, police budgets appear to have survived the capping system relatively more intact, as shown in Table 4.4. Capping appears to be associated with police spending being around 5.9 per cent lower than otherwise if we focus solely on police spending by democratically elected local councils. If we include police spending by single-service councils in shire areas after 1994, this rises to 8.4 per cent, suggesting that multi-purpose councils were more able to transfer funds within their general budgets to protect spending on their priority services. Capping is associated with a slightly smaller reduction in police staffing than the impact on the police budget as a whole, for solely elected councils and also once single-service police spending in shire areas is included.

Table 4.4 also shows that spending on the fire service has been about 10 per cent lower in those councils that have budgeted at cap than it would have been in the absence of the capping arrangement. Given that councils spent far less on fire services than on police services, this represents about £2.60 per head lower spending, compared with over £6 lower spending on the police. As with both education and the police, there has been a reduction in staffing of slightly less than the overall cut in budget, indicating that labour inputs have been relatively protected compared with non-labour inputs. Possible ways that this has been achieved without reductions in staffing levels would be through pay constraint or by a reduction in the availability of overtime pay.

Capped councils appear to have made larger reductions in their transport spending compared with any of the other major service areas. This indicates, perhaps, that councils found it a politically less sensitive area to target, with capping found to have led to 13 per cent less transport spending.

Library services. One of the relatively minor services that appears to have been disproportionately hard hit by the capping arrangements is the provision of public libraries, perhaps because this area of service provision is less subject to statutory limitations on minimum levels of provision than the major services. We find that capping

Table 4.4. The impact of capping on police, fire and transport services

	Reduction due to capping	
	%	£ per head
Police spending	8.4%	£8.77
Police staffing	7.2%	n/a
Police spending *solely by elected bodies*	5.9%	£6.00
Police staffing *solely by elected bodies*	5.7%	n/a
Fire spending	10.1%	£2.60
Full-time firemen	8.6%	n/a
Transport	12.6%	£4.87

Table 4.5. The impact of capping on library provision

	Reduction due to capping	
	%	£ per head
Library spending	13.9%	£1.34
Library staffing	10.0%	n/a
Book lending	8.4%	n/a

is associated with spending on library services that is 14 per cent less than what capped councils would otherwise have spent, as shown in Table 4.5. This has followed through to a 10 per cent lower level of library staffing, suggesting either a reduction in non-labour costs or some degree of substitution for lower-paid staff. The volume of book lending has also been reduced by 8 per cent. This may result from lower levels of staffing influencing opening hours and therefore the access of residents to local library services, suggesting an impact of capping on the quality of library services available.

Other services. Many other more minor local services, which are the responsibility of district councils within the shire areas, appear to have had much larger reductions in tax-financed expenditure than the major services. Much of this difference can be accounted for by the greater potential for substituting between tax finance and user charges for many of these services. In many cases, large percentage reductions in the availability of tax finance actually represent relatively limited reductions in spending per capita on that service. Capping appears to be associated with significantly lower levels of tax-financed spending on museums, parks and leisure centres, all of which have access to other sources of finance. This is shown in Table 4.6.

The reduction in the budgets for each of these services associated with capping is likely to be far smaller than would be suggested by considering the reduction in tax- and grant-based funding. At least some of the revenue shortfall is likely to have been made up via increases in user charges. Capping certainly appears to be associated with the generation of increased revenues from the users of council services.

Unfortunately, we did not have access to a detailed breakdown of which services are generating user-charge receipts for local councils. This means we were unable to determine to what extent cuts in spending have simply led to alternative sources of finance and to what extent they represent a reduction in the overall service budget through efficiency savings, reduced staffing or reduced service availability. Any increase

Table 4.6. The impact of capping on provision of minor local services

	Reduction due to capping	
	%	£ per head
Museum spending	18.3%	£0.50
Leisure spending	13.1%	£1.97
Parks spending	12.5%	£1.29
Environment spending	10.3%	£0.69
Planning applications passed in eight weeks	8.4%	n/a

in user charges is likely to have had very different distributional implications from the alternative of raising finance through the council tax.

Table 4.6 also shows that capped councils managed to decide within eight weeks a far lower proportion of the planning applications that were submitted to them. As long as the quality of screening is maintained whether or not a council's budget is capped, this represents a lower quality of service to residents who propose developments.

5. Conclusions

The government's proposals to reform the local government finance system and remove universal capping of local authority expenditure have many desirable features but pose a number of risks for central government. Principal amongst these is government uncertainty over exactly what local spending decisions and council tax decisions would be made in the absence of tight central control. In this Commentary, we have provided the first quantitative estimates of the impact of universal capping on local spending decisions.

The research estimates that the tax- and grant-financed budgets of those authorities responsible for the provision of the key local services of education, personal social services and the police are 4 per cent lower amongst capped councils than they would have been in the absence of capping. Shire district councils, which can charge users directly for a larger proportion of their services, have had their tax- and grant-financed spending suppressed by an estimated 8 per cent. Overall, taking into account the number of councils that have been capped each year, aggregate spending by local councils is an estimated £1.2 billion lower than it otherwise would have been. This implies that council tax bills across the whole country are an estimated 13 per cent lower than they would have been in the absence of capping. This is equivalent to an average £90 on a band D property. The abolition of universal capping is likely to lead to considerable variation in spending and hence council tax increases between different local authorities. This will depend not only on the precise impact capping had on each individual council, but also on the extent to which councils decide to reverse the reductions in spending caused by capping. The research shows that the council tax bills of councils that provide major services and that are spending at cap are, on average, an estimated 16 per cent lower than they would have been in the absence of capping. Shire districts that spent at cap and which account for a much smaller share of local tax bills have had their component of council tax bills reduced by an estimated 23 per cent.

Whilst recent years have seen significant real rises in council tax bills across most of the country, it seems unlikely that central government could countenance the potential repercussions from the removal of capping controls that led to increases of this magnitude. However, since we have evidence of gradual adjustment in local budgets, a process that resulted in phased increases in local spending and council tax bills might be politically more palatable. It is also true that a ratchet effect on service charges exists. The consequence of this is that councils that have increased service charges to ameliorate the impact of lower subsidies on levels of provision would be likely to choose not to increase subsidies once capping restrictions were lifted.

The size of the 'catch-up' in spending from removing capping controls would also depend on the level of desired local spending remaining unchanged. Our results suggest that desired local spending is related to a range of factors, some of which are under central government's control. In particular, the proximity of elections and local demographic and economic factors appear to affect desired local spending. Hence, changes to the funding arrangements from central government or the introduction of annual elections, both of which have already been proposed by the government, might serve to reduce the size of any increase in local spending. Indeed, should reserve capping

powers be retained (Department of the Environment, Transport and the Regions, 1998a), they are likely to reduce the potential for significant increases in household council tax bills.

Appendix A. Results

Tables A.1 and A.2 give the results from the model of council spending for councils providing major services and for shire district councils respectively. Each table contains the results of two censored regressions — one for tax- and grant-financed spending and one for total spending which includes the use of reserves. The tables also give the median effect of capping on each type of spending.

Tables A.3 and A.4 give the effect of capping on spending on a range of local services, and also the effect on some potential indicators of service quality. Each individual result in these tables comes from a separate censored regression, with a similar set of independent variables to those used for the total spending tables (Table C.2 in Appendix C provides further details).

Table A.1. Total spending per head: major councils

Dependent variable = expenditure per head in current year	*Tax- and grant-financed spending*		*Spending including the use of reserves*	
	Coefficient	t-statistic	Coefficient	t-statistic
Expenditure in previous year	0.497	(11.00)	0.525	(8.59)
SSA	0.530	(10.52)	0.514	(6.92)
Unemployment	–4.355	(2.41)	–4.970	(1.70)
Income	–8.138	(1.52)	–12.658	(1.48)
Conservative control dummy	–10.361	(1.92)	–19.698	(1.69)
% Conservative seats on council	–21.123	(1.42)	–40.704	(1.48)
% Labour seats on council	22.567	(2.01)	27.165	(1.70)
Election year dummy	–12.601	(3.01)	–11.541	(1.70)
Proportion on council tax benefit	–6.684	(0.17)	–54.385	(0.82)
Daytime population inflow	–45.297	(5.77)	–44.509	(3.68)
Population density	–45.311	(2.50)	–20.994	(0.69)
Population aged under 5	–4.241	(0.77)	1.659	(0.18)
Population aged 5 to 14	–1.396	(0.42)	–5.474	(0.99)
Population aged over 80	5.066	(1.68)	8.021	(1.67)
No. of elderly living alone	3.419	(2.67)	2.099	(1.00)
No. of children, parents on benefit	1.604	(2.87)	1.468	(1.61)
Regional dummies	Included		Included	
Year dummies	Included		Included	
No. of councils	106		106	
No. of censored observations	451		451	
No. of uncensored observations	142		142	
Total no. of observations	593		593	
Influence of capping, median £	£33.03	(12.33)	£55.28	(9.54)
Influence of capping, median %	4.24%	(12.85)	6.68%	(8.79)
R^2	0.988	n/a	0.969	n/a

Notes: Darker shading represents significance at the 5 per cent level, lighter shading significance at the 10 per cent level. Standard errors (t-statistics) for the median impact of capping are estimated using a bootstrapping technique, with 1,000 repetitions. The R^2 measure reported is as proposed for censored regressions by Laitila (1993).

Table A.2. Total spending per head: shire district councils

Dependent variable = expenditure per head in current year	*Tax- and grant-financed spending*		*Spending including the use of reserves*	
	Coefficient	t-statistic	Coefficient	t-statistic
Expenditure in previous year	0.764	(47.62)	0.684	(28.14)
SSA	0.218	(8.53)	0.161	(3.03)
Unemployment	–0.549	(2.01)	–1.139	(0.89)
Income	–0.926	(1.04)	–1.493	(0.76)
Conservative control dummy	–2.402	(2.93)	–2.564	(1.44)
% Conservative seats on council	–0.767	(0.37)	–5.153	(1.17)
% Labour seats on council	7.367	(4.23)	10.938	(2.91)
Election year dummy	–0.877	(1.22)	–0.591	(0.38)
Proportion on council tax benefit	24.353	(2.09)	115.49	(4.42)
Daytime population inflow	1.023	(0.25)	22.278	(2.55)
Population density	4.669	(1.62)	16.066	(2.57)
Population aged under 5	–0.690	(0.99)	–2.134	(1.41)
Population aged 5–14	0.828	(1.88)	1.479	(1.57)
Population aged over 80	1.027	(2.83)	0.952	(1.22)
No. of elderly living alone	0.092	(0.28)	1.047	(1.49)
No. of children, parents on benefit	–0.188	(1.48)	–0.430	(1.54)
Regional dummies	Included		Included	
Year dummies	Included		Included	
No. of councils	295		295	
No. of censored observations	810		810	
No. of uncensored observations	902		902	
Total no. of observations	1,712		1,712	
Influence of capping, median £	£9.30	(16.99)	£20.78	(16.23)
Influence of capping, median %	8.32%	(18.91)	16.38%	(20.22)
R^2	0.899	n/a	0.745	n/a

Notes: Darker shading represents significance at the 5 per cent level, lighter shading significance at the 10 per cent level. Standard errors (t-statistics) for the median impact of capping are estimated using a bootstrapping technique, with 1,000 repetitions. The R^2 measure reported is as proposed for censored regressions by Laitila (1993).

Table A.3. Individual major service spending per head

Dependent variable	% reduction caused by capping	Bootstrap standard error	No. of capped observations	No. of uncapped observations
Education spending	9.12%	(0.84%)	349	102
Primary				
Gross costs	8.26%	(0.80%)	358	115
Teaching costs	6.67%	(0.72%)	358	117
Pupil–teacher ratio	4.96%	(0.56%)	440	139
Secondary				
Gross costs	9.43%	(0.83%)	403	108
Teaching costs	8.24%	(0.74%)	339	100
Pupil–teacher ratio	6.52%	(0.72%)	440	139
Nursery				
Nursery places	22.35%	(2.22%)	370	120
Social services spending	9.41%	(1.07%)	289	111
Home help contact hours	16.26%	(3.94%)	149	37
Police spending	8.37%	(1.71%)	176	36
Police staffing[a]	7.18%	n/a	172	35
Police spending *solely by elected councils*	5.89%	(1.25%)	114	34
Police staffing *solely by elected councils*[a]	5.73%	n/a	114	34
Fire spending	10.09%	(2.29%)	176	35
Full-time firemen[a]	8.55%	n/a	165	34
Transport spending	12.60%	(1.42%)	345	111

[a]No standard error is available for police or fire staffing due to lack of convergence of the bootstrapping technique used.

Table A.4. Individual minor service spending per head

Dependent variable	% reduction caused by capping	Bootstrap standard error	No. of capped observations	No. of uncapped observations
Library spending	13.85%	(1.12%)	385	120
Library staffing	10.00%	(0.78%)	401	117
Book lending	8.43%	(0.71%)	324	115
Museum spending	18.31%	(2.04%)	452	244
Leisure spending	13.12%	(0.66%)	553	342
Parks spending	12.51%	(0.60%)	744	506
Environment spending	10.33%	(0.49%)	427	461
Planning applications passed in eight weeks	8.42%	(0.35%)	585	560

Appendix B. Local government in the UK

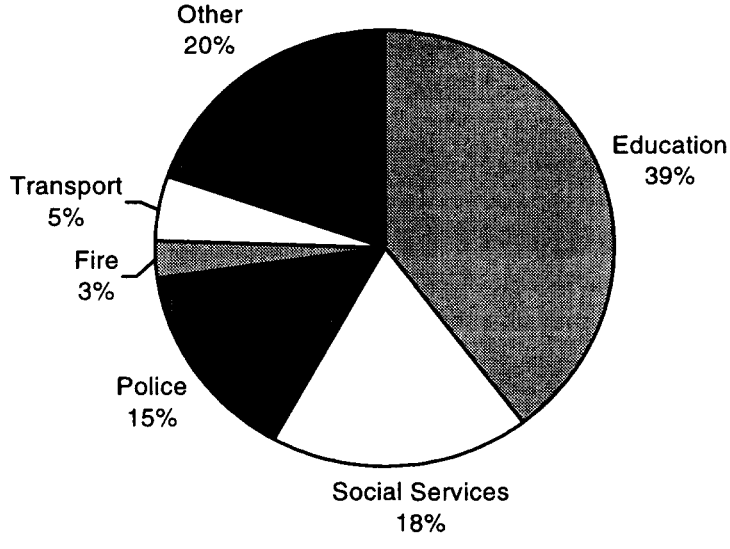
This appendix provides a brief overview of the responsibilities, structure, sources of revenue and electoral systems of local authorities within England and Wales in the period since 1990.

B.1 Responsibilities

In 1996–97, local authorities were responsible for roughly one-quarter of total public expenditure in the UK. This expenditure includes spending on some services over which local councils exert considerable autonomy, such as social services and leisure services, and some spending that councils simply administer on behalf of national government, such as the administration of student maintenance grants or housing benefit.

Within England and Wales in 1996–97, councils budgeted to spend £48 billion on the range of local services over which they exercise some degree of discretion.[11] This is the measure of council spending that is limited by the capping system.[12] Figure B.1 shows the key local services, with education being responsible for 39 per cent of local budgets followed by personal social services (18 per cent), police (15 per cent), public transport (5 per cent) and fire (3 per cent). Local councils also provide a range of more minor services such as refuse collection, street lighting, cemeteries, libraries and car parks.

Figure B.1. Local authority current expenditure, 1996–97, England and Wales



Source: CIPFA, *Finance and General Statistics*, 1996–97.

[11]This is known as 'budget requirement', which does not include any adjustments to reserves.

[12]Expenditure limits take the form of maximum permissible changes in budget requirement, with a relatively limited range of adjustments, including any changes in expenditure responsibilities, taken into account. Appendix B gives the rules used each year to calculate the provisional cap limits.

There have been some important changes in local council responsibilities over the period of our study. Local councils lost responsibility for sixth-form colleges in 1993, and since April 1992 responsibility for community care services has gradually been transferred from the National Health Service to local councils. Any analysis of local spending decisions clearly needs to take account of such changes in council responsibilities over time.

B.2 Structure

The structure of local government in the UK has undergone considerable reform since 1990. This means that both the total number of councils in our study and the responsibilities of individual councils vary from year to year.

At the start of the period of our study, the structure of local government was two-tier in shire England and Wales, with a unitary structure in London and the metropolitan areas. Then, in 1991, the Conservative government announced a further round of reforms to the structure of local government. A unitary system of local government was introduced in Scotland and Wales and a Local Government Commission was set up to review the structure of local government on a county-by-county basis within shire England. By April 1995, a new system of unitary authorities replaced the existing two-tier system in Scotland, Wales and the Isle of Wight. In April 1996 — the final year of the period covered by our study — unitary authorities were introduced in a further three English counties (Avon, Cleveland and Humberside). In April 1995, a series of authorities only providing police, called single-service authorities, and not directly elected were set up in shire England. Single-service fire authorities were also set up in those areas of shire England that had moved to a unitary structure from April 1996 onwards. Further reforms have followed but these lie outside the period of our study.

Changes in local government structure may affect spending decisions for a number of reasons. Single-service authorities can no longer determine relative priorities between individual local services. Indirectly elected authorities may not be subject to the same sort of political or electoral influences that affect the spending decisions of elected councils. Redrawing council boundaries may also influence the political, economic or demographic composition of a local area.

B.3 Finance

The major sources of finance for local spending are central government grant, non-domestic rates and taxes on local residents. Over the period of our study, the local tax system has undergone substantial change, with the replacement of the ill-fated community charge or poll tax by the council tax in April 1993 and significant reform to the benefit system.[13] Changes to the design of the local tax system or to social security arrangements for rebating local taxes affect the increase in taxes that particular individuals might face for a given increase in local spending.

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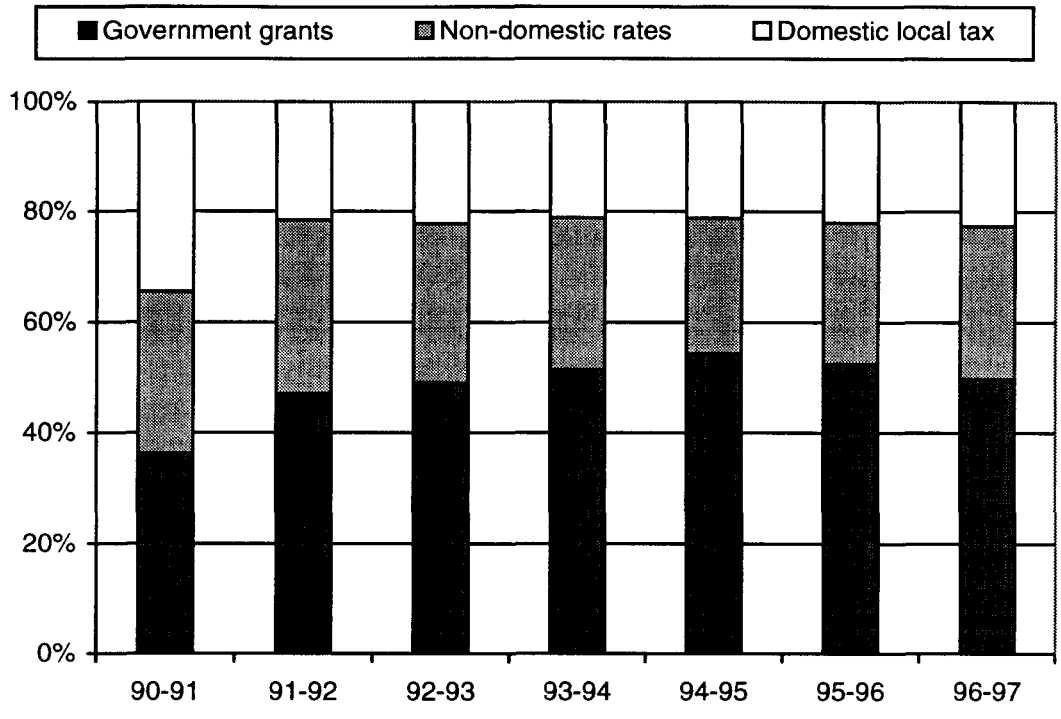
[13]Ridge and Smith (1991) provide a detailed description of the community charge, whilst the council tax is explained in more depth in Emmerson and Hall (1998b).

Figure B.2. Sources of finance for English local authority expenditure



Source: Department of the Environment, Transport and the Regions, 1997.

Figure B.2 shows how the relative importance of each source of finance for local councils has evolved over the 1990s. After the 'fiscal anarchy' (Besley, Preston and Ridge, 1997) that accompanied the introduction of the community charge in April 1990, the November 1990 Budget announced an increase in the standard rate of VAT, the revenue from which was used to reduce community charge bills by £140 per head. Hence, between 1990–91 and 1991–92, Figure B.2 shows a significant increase in the reliance of local councils on external sources of finance. Since the introduction of the council tax in 1993–94, there has been a limited increase in the proportion of local spending that has been locally funded.

External finance

External finance to local councils takes three main forms: an unhypothecated multi-purpose grant known as revenue support grant, redistributed non-domestic rates, and specific grants for individual services.[14] The most important of these is revenue support grant, which is designed to equalise the tax rate that all councils would set if they budgeted at a centrally determined assessment of spending need, known as standard spending assessment (SSA).[15] Since 1990, non-domestic rates have effectively operated as

[14]Specific grants within budget requirement over the period included police grant, grants to compensate councils for the transfer of care-in-the-community responsibilities from the NHS and grants to help meet the costs of local government reorganisation.

[15]See Audit Commission (1993) for a survey.

a national tax with revenues hypothecated to local government. Central government sets a single national tax rate known as the uniform business rate (UBR).[16] Since any revenues distributed to local councils from the national non-domestic rate pool are taken into account when determining levels of grant, there is no obvious difference between these two sources of revenue to local councils.

B.4 The local electoral system

Local electoral arrangements differ considerably both between areas and between the individual councils that provide services within any given local area. London boroughs, county councils and some shire districts face 'all out' elections for all of the seats on the council once every four years. Metropolitan boroughs and the remaining shire districts have one-third of council seats coming up for election in each of three years out of every four. Within the two-tier structure introduced by the 1974 local government reorganisation, this means that most voters had the opportunity to vote in local elections every year, with lower-tier elections in three years out of four and elections to the upper-tier authority in the fourth year.[17] Table B.1 summarises the current voting system used by each type of council within England and in which years elections were held during the period of our study.

Table B.1. Current electoral arrangements in England

Type of council	Electoral arrangements	Election years
County councils	Full council elections Single-member electoral districts	1993
London boroughs	Full council elections One to three members per ward	1994
Metropolitan districts	Elections by thirds Three members per ward	All years except 1993
88 shire districts	Elections by thirds Some wards have less than three members	All years except 1993
149 shire districts	Full council elections One to three members per ward	1991 and 1995
Police and fire authorities	Not directly elected	n.a.

Note: This table abstracts from any transitional arrangements in the newly established unitary authorities in shire England.

Source: Department of the Environment, Transport and the Regions, 1998b.

[16]The level of the UBR differs between England and Wales.

[17]Voters in wards with less than three members would have the opportunity to vote in local elections less frequently than those in three-member wards.

Appendix C. Data

C.1 Sources

- Details of local councils' spending (both total and disaggregated), income from revenue support grant, non-domestic rates, council tax benefit and community charge benefit, and information on each council's expenditure limits, came from *Finance and General Statistics*, published annually by the Chartered Institute of Public Finance Accountants (CIPFA).

- Indicators of service quality and additional spending data came from *Local Government Comparative Statistics*, published annually by CIPFA.

- Political and elections data were obtained from the Local Government Chronicle Elections Centre.

- Local economic and demographic variables were obtained from the National Online Manpower Information System (NOMIS) and *Economic Trends*, published by the Office for National Statistics.

- Information on standard spending assessments (SSAs) and some of the component indicators came from *Standard Spending Indicators*, published annually by the Society of County Treasurers.

C.2 Description of variables

Summary statistics for some of the variables used in our analysis are given in Table C.1.

The political variables used are the proportions of seats held by the Conservative and the Labour parties, and a dummy variable for whether the Conservatives were in control of the council. These political data correspond to the composition of the councils when the budgets were set — so, for example, the May 1993 election results will be applicable to the April 1994 budgets.

Unemployment is given as a percentage of the number of working-age adults (defined as aged between 20 and 59) in the local area.

Income corresponds to the average disposable household income, by place of work. We use district-level data in the metropolitan areas of England, whereas in Wales and shire England the county-level figure is used. Income is in constant 1996 prices.

The demographic data correspond to the percentage of the population in the relevant age band.

All data on local council expenditures, SSAs and incomes are deflated to 1996 prices using a local authority pay and price index. The net average number of daily visitors to the council's area (i.e. daytime population inflow), a measure of population density and the percentage of each council's local taxes that is paid through benefit are included in each regression.

Table C.1. Description of data

Variable	No. of obs.	Mean	Standard deviation	25th percentile	75th percentile
Political variables					
Conservative seats	2465	0.33	0.22	0.17	0.48
Labour seats	2465	0.36	0.29	0.10	0.59
Conservative control	2465	0.21	0.41	0	0
Economic variables					
Unemployment	2465	6.86	2.64	4.97	8.29
Household income	2465	8.49	0.75	7.83	8.99
Demographic variables					
Population aged under 5	2465	6.44	0.73	5.92	6.91
Population aged 5–14	2465	12.52	1.05	12.00	13.09
Population aged 60–79	2465	17.30	2.68	15.61	18.86
Population over 80	2465	4.15	1.15	3.45	4.57
Major councils					
Expenditure	636	805.74	201.89	660.04	868.78
SSA	636	790.00	196.82	652.89	854.77
Proportion of council tax from benefit	617	18.19	7.66	12.41	22.24
Shire district councils					
Expenditure	1829	101.87	28.15	83.66	113.60
SSA	1829	100.35	22.86	86.26	106.85
Proportion of council tax from benefit	1822	13.24	5.01	9.55	15.85

A dummy variable for whether the council faced an election, and a full set of regional and time dummies, were included in all the regressions.

Different independent variables were used for each of the spending areas. For example, the number of fire alarms and number of high-risk areas per capita were included in the regressions for fire spending and staffing. Table C.2 lists the variables used in each of the regressions.

Table C.2. Variables included in each of the censored regressions

All spending areas	Relevant expenditure in previous year SSA Unemployment Conservative share of seats Labour share of seats Conservative control dummy Election year dummy Proportion of council tax paid through benefit Population density Daytime population inflow Year dummies Regional dummies
Education	Specific population age-groups Proportion of children whose parents are claimants Proportion of children whose parents are lone parents
Social services	Specific population age-groups Proportion of children whose parents are claimants Proportion of children whose parents are lone parents Proportion of elderly living alone Proportion of elderly on income support
Police	Number of serious recorded crimes in previous period
Fire	Proportion of high-risk areas Number of alarms
Transport	Average traffic flow Average HGV flow Number of snow days
Environmental	As transport above *plus* Number of UK visitors Number of foreign visitors
Libraries	Number of books hired in previous period
Museums, parks, leisure	Number of UK visitors Number of foreign visitors

Appendix D. Econometric methods

This appendix provides additional details on the estimation techniques used to obtain the results presented in Section 4.

Let y_{it} denote actual spending of council i in period t, and y_{it}^* the *desired* spending of the council, which is the level of expenditure the council would have spent in the absence of any capping restraints. Let x_{it} be a vector of determinants of council spending with β the associated response parameters. A simple linear model of desired expenditure is then given by

$$y_{it}^* = x_{it}'\beta + \varepsilon_{it}$$

where ε_{it} is a random disturbance term assumed to be normally distributed with mean 0 and variance σ^2. The observed expenditure of the council is the minimum of its desired spending level and the limit cl_{it} set by central government,

$$y_{it} = \min(y_{it}^*, cl_{it}).$$

The parameter vector β is estimated using a *censored* regression estimation technique. This maximum likelihood estimator uses the linear model specification for the councils for which the actual level of spending equals the desired level, but only uses the partial information that $y_{it} \leq y_{it}^*$ for those councils that spend at the limit. The log-likelihood function is given by

$$\log L = \sum_{y<cl}\left(-\frac{1}{2}\log(\sigma^2) - \frac{(y-x'\beta)^2}{2\sigma^2}\right) + \sum_{y=cl}\log\left(1-\Phi\left(\frac{cl-x'\beta}{\sigma}\right)\right)$$

where Φ is the standard normal cumulative distribution function. The estimated parameters β and σ maximise the log-likelihood function.

In order to assess the impact of the spending restraints imposed by central government on those councils that spend at the limit, we have to estimate the level of desired spending of these councils in the absence of capping. The expected value of spending of councils that spend at the cap limit is given by

$$E[y_{it}^* \mid y_{it}^* \geq cl_{it}] = x_{it}'\beta + E[\varepsilon_{it} \mid \varepsilon_{it} \geq cl_{it} - x_{it}'\beta]$$

$$= x_{it}'\beta + \sigma\frac{\phi\left(\frac{cl_{it}-x_{it}'\beta}{\sigma}\right)}{1-\Phi\left(\frac{cl_{it}-x_{it}'\beta}{\sigma}\right)}$$

where ϕ is the standard normal density function. Comparing this expression, evaluated at the estimates of β and σ, with the cap limits gives an indication of how much these councils spend less than the desired level.

In order to get reliable standard errors for the median discrepancy between desired spending and actual spending for those councils that spend at cap, we use the standard errors of the estimates that are obtained by bootstrapping. This technique samples with replacement from the data, and estimates the full model for a number of replications. We set the number of replications equal to 1,000.

Appendix E. Rules used to designate authorities for capping

This appendix provides a comprehensive guide to the rules that were used to designate which local authorities were to be capped each year since 1991–92.

Provisional capping criteria: the era of universal capping

Under the universal capping regime, the Secretary of State announced his provisional capping criteria in the House of Commons in the November prior to the start of a financial year. Unlike under the selective capping system that applied during the 1980s, this meant that capping limits were set for all councils, not just the 5 per cent or so of councils that had been selected on the basis of their budgets the previous year. Councils could set budgets in excess of their provisional capping limit, but faced the risk of rebilling local residents if the Secretary of State was not minded to increase their provisional capping limit accordingly.

1991–92

Provisional cap limits, which only applied to councils with budgets in excess of £15 million,[18] allowed a maximum budget increase of

a) 9 per cent if this led to a budget exceeding SSA; *or*
b) 7 per cent if this led to a budget more than 5 per cent in excess of SSA; *or*
c) 5 per cent if this led to a budget more than 10 per cent in excess of SSA; *or*
d) 0 per cent if the budget is more than 12½ per cent in excess of SSA, regardless of change in budget.[19]

Source: Department of the Environment, News Release, 3 April 1991.

1992-93

Provisional cap limits, which now applied to all councils, allowed a maximum budget increase of

a) 6½ per cent if this led to a budget exceeding SSA; *or*
b) 4½ per cent if this led to a budget more than 5 per cent in excess of SSA; *or*
c) 2½ per cent if this led to a budget more than 10 per cent in excess of SSA; *or*
d) 0 per cent if the budget is more than 12½ per cent in excess of SSA, *unless*
   i) its 1992–93 budget is less than 30 per cent in excess of SSA and has not increased in cash terms over its 1991–92 budget, *or*
   ii) its 1992–93 budget is less than 60 per cent in excess of SSA and is at least 5 per cent lower than in its 1991–92 budget, *or*
   iii) its 1992–93 budget represents a reduction of at least 10 per cent over its 1991–92 budget.[20]

Source: Department of the Environment, News Release, 14 May 1992.

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[18]This should be interpreted as any council with a budget below £15 million having an effective expenditure limit of £15 million.

[19]Authorities in which the budget would only be reduced by up to £10,000 were not capped, due to the cost of rebilling. Inner London authorities had the amount of the Inner London education grant deducted from their budgets, due to 'inherited ILEA overspend'.

[20]Authorities in which the budget would only be reduced by up to £1.50 per adult were not capped, due to the cost of rebilling. Inner London authorities had the amount of the Inner London education grant deducted from their budgets, due to 'inherited ILEA overspend'.

1993–94

Provisional cap limits allowed a maximum budget increase of
a) 2½ per cent if this led to a budget exceeding SSA; *or*
b) 1¾ per cent if this led to a budget more than 1 per cent in excess of SSA; *or*
c) 1 per cent if this led to a budget more than 5 per cent in excess of SSA; *or*
d) ½ per cent if this led to a budget more than 10 per cent in excess of SSA; *or*
e) 0 per cent if the budget is more than 12½ per cent in excess of SSA, regardless of change in budget, *unless*
i) its 1993–94 budget is less than 30 per cent in excess of SSA and has not increased in cash terms over its 1992–93 budget, *or*
ii) its 1993–94 budget is less than 60 per cent in excess of SSA and is at least 5 per cent lower than its 1992–93 budget, *or*
iii) its 1993–94 budget represents a reduction of at least 10 per cent over its 1992–93 budget.[21]

Source: Department of the Environment, News Release, 26 November 1992.

1994–95

Provisional cap limits allowed a maximum budget increase of
a) 1¾ per cent if this led to a budget exceeding SSA; *or*
b) 1¼ per cent if this led to a budget more than 5 per cent in excess of SSA; *or*
c) ¾ per cent if this led to a budget more than 10 per cent in excess of SSA; *or*
d) 0 per cent if the budget is more than 12½ per cent in excess of SSA, regardless of change in budget, *unless*
i) its SSA has fallen by at least 5 per cent due to the 1993 SSA review and its budget requirement has not increased in cash terms over its 1993–94 budget, *or*
ii) its 1994–95 budget is less than 30 per cent in excess of SSA and has not increased in cash terms over its 1993–94 budget, *or*
iii) its 1994–95 budget is less than 60 per cent in excess of SSA and is at least 5 per cent lower than its 1993–94 budget, *or*
iv) its 1994–95 budget represents a reduction of at least 10 per cent over its 1993–94 budget.[22]

Source: Department of the Environment, News Release, 7 April 1994.

[21]Councils were exempted from rebilling if the budget exceeded the provisional capping limit by £10,000 or less. Inner London authorities had the amount of the Inner London education grant deducted from their budgets, due to 'inherited ILEA overspend'. Adjustments were made to areas that had undergone boundary changes or had received population loss grants or community care special grants. Also, some reorganisation costs that were included in the budgets were ignored.

[22]Councils were exempted from rebilling if the budget exceeded the provisional capping limit by £10,000 or less.

1995–96

The maximum budget increase allowed by the provisional cap limits varied according to class of authority.

Police authorities were allowed a maximum budget increase of
a) 2½ per cent if this led to a budget exceeding SSA; *or*
b) 1½ per cent if this led to a budget more than 5 per cent in excess of SSA; *or*
c) ½ per cent if this led to a budget more than 10 per cent in excess of SSA.

Inner London boroughs and metropolitan county fire and civil defence authorities were allowed a maximum budget increase of
a) 2 per cent if this led to a budget exceeding SSA; *or*
b) 1¼ per cent if this led to a budget more than 5 per cent in excess of SSA; *or*
c) ½ per cent if this led to a budget more than 10 per cent in excess of SSA.

All other authorities were allowed a maximum budget increase of
- ½ per cent if this led to a budget exceeding SSA.

In addition, no council was allowed to increase its budget if
- the budget is more than 12½ per cent in excess of SSA, regardless of change in budget, *unless*
  i) its SSA has fallen by at least 10 per cent due to the 1993 SSA review and its budget requirement has not increased in cash terms over its 1994–95 budget, *or*
  ii) its 1995–96 budget is less than 30 per cent in excess of SSA and has not increased in cash terms over its 1994–95 budget, *or*
  iii) its 1995–96 budget is less than 60 per cent in excess of SSA and is at least 5 per cent lower than its 1994–95 budget, *or*
  iv) its 1995–96 budget represents a reduction of at least 10 per cent over its 1994–95 budget.[23]

Source: Department of the Environment, News Release, 5 April 1995.

[23]Adjustments were made to areas that had undergone boundary changes or had received population loss grants or community care special grants. Also, some reorganisation costs that were included in the budgets were ignored. Other factors, including the transfer of schools to grant-maintained status, were also taken into account.

1996–97

The maximum budget increase allowed by the provisional cap limits varied according to class of authority.

Police authorities were allowed a maximum budget increase of the greater of
a) 3½ per cent *or*
b) the increase in the police SSA.

All London boroughs, shire counties, metropolitan districts and unitary authorities were allowed a maximum budget increase of the greater of
a) the increase in the education, personal social services and fire SSAs *or*
b) 1½ per cent for Inner London boroughs (including Corporation of London);
   2 per cent for Outer London boroughs and metropolitan districts;
   3 per cent for shire counties and unitary authorities.

Fire authorities were allowed a maximum budget increase of the greater of
a) 2 per cent *or*
b) the increase in the fire SSA.

Shire districts were allowed a maximum budget increase of
- ½ per cent.

In addition, no council was allowed to increase its budget if
- the budget is more than 12½ per cent in excess of SSA.[24]

Source: Department of the Environment, News Release, 30 November 1995.

[24]Adjustments to the increase in the budget were made with reference to changes in the authority's SSAs for education, personal social services, fire provision and police provision. Changes in the level of police grant were also considered.

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